Insights

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The Central Bank of Kenya (Amendment) Act, 2026: How Kenya's New Emergency Liquidity Assistance Framework Changes Bank Rescue

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Banking | Financial Services Regulation | Central Bank Governance

Introduction

Until 24 July 2026, Section 36 of the Central Bank of Kenya Act restricted the Bank to advancing funds for a maximum of six months to specified banks and microfinance banks. Such advances had to be secured by treasury bills or other government securities. The Act made no distinction between routine liquidity support and crisis intervention, and it contained no eligibility criteria determining which institutions could receive assistance.

The Central Bank of Kenya (Amendment) Act, 2026 replaces that single facility with two separate mechanisms. The Bank retains the power to extend ordinary loans and advances for monetary policy purposes and to maintain orderly market conditions, on terms it determines. In addition, the Act establishes an Emergency Liquidity Assistance (ELA) framework available only to banks and microfinance institutions that are solvent, viable, not in liquidation, and systemically important. ELA may be granted for an initial period of up to twelve months and may be extended for a total of up to five years. Acceptable collateral is drawn from a broader range of assets than the previous treasury-bill restriction permitted.

Four further amendments accompany the principal reform. Financial system stability and sound banking regulation are now expressly included among the Bank's statutory objectives, alongside its existing price-stability mandate. Nominees for the office of Deputy Governor must undergo vetting and approval by the National Assembly, placing them on the same footing as the Governor. The Bank's powers to hold and deal in reserves now extend to precious metals generally, rather than gold alone. Finally, the Bank's authority to lend to the deposit insurer has been updated to refer to the Kenya Deposit Insurance Corporation in place of the former Deposit Protection Fund Board.

According to the National Assembly's explanatory brief on the Bill, these amendments are intended to align the Central Bank of Kenya Act with the Basel Core Principles for Effective Banking Supervision. The discussion that follows examines the changes section by section and considers their implications for the institutions supervised by the Bank.

Who This Applies to

The Act amends the Central Bank of Kenya Act (Cap. 491), the statute governing the Bank itself. Its provisions reach:

- banks and microfinance institutions, as the pool eligible for ordinary Bank lending and, where the statutory tests are met, Emergency Liquidity Assistance;
- the Kenya Deposit Insurance Corporation, as the named beneficiary of the Bank's lending power under the revised section 46A;
- the Central Bank of Kenya's own governance, through the National Assembly vetting now required for Deputy Governor nominees; and
- every institution the Bank supervises, indirectly, through the expanded statutory mandate in section 4(2).

Institutions regulated under separate legislation continue to be governed by their own regimes, though they remain within the wider financial-stability mandate the Act now gives the Bank.

The Regulations at a Glance

Section	What it Requires	Practical Note
S.2 – Mandate (s.4(2))	The Bank is mandated to foster (a) the stability, resilience, liquidity, solvency, integrity and proper functioning of a market-based financial system, and (b) the soundness, safety and effective regulation of the banking system.	Financial stability and sound banking regulation become express secondary objectives, alongside the Bank's unchanged primary object of price stability under section 4(1).
S.3 – Training function (s.4A(1))	Adds capacity building and training to Bank staff, the public, government institutions and persons from other jurisdictions, as a statutory function of the Bank.	Places CBK’s training and capacity-building work on a firm statutory footing for the first time.
S.4 – Deputy Governor vetting (s.13B(1))	Every reference to “Parliament” is replaced with “the National Assembly.”	Deputy Governor nominees now undergo the same National Assembly vetting process applied to the Governor.

Section	What it Requires	Practical Note
S.5 & S.6 – Reserves and dealing powers (ss.26(1)(a), 27(1))	External reserves may now include “gold and any other precious metals”; the Bank may buy, sell, import, export, transfer, hold or deal in gold, other precious metals, or foreign exchange.	Reserve management is no longer confined to gold, and “transfer” is added as an express dealing power.
S.7 – Loans and Emergency Liquidity Assistance (s.36)	Splits Bank lending into (i) ordinary loans for monetary policy and orderly markets, and (ii) ELA for banks or microfinance institutions that are solvent, viable, not in liquidation, and systemically important.	The principal reform: crisis lending now has its own statutory gateway, tenor and collateral rules, distinct from routine liquidity support.
S.8 – Loans to the deposit insurer (s.46A)	Replaces “Deposit Protection Fund Board” with “Kenya Deposit Insurance Corporation” as the body the Bank may lend to for up to three years, secured on Treasury Bills or other government securities.	Aligns the Act’s wording with the deposit-insurance framework that has been in force since 2012.

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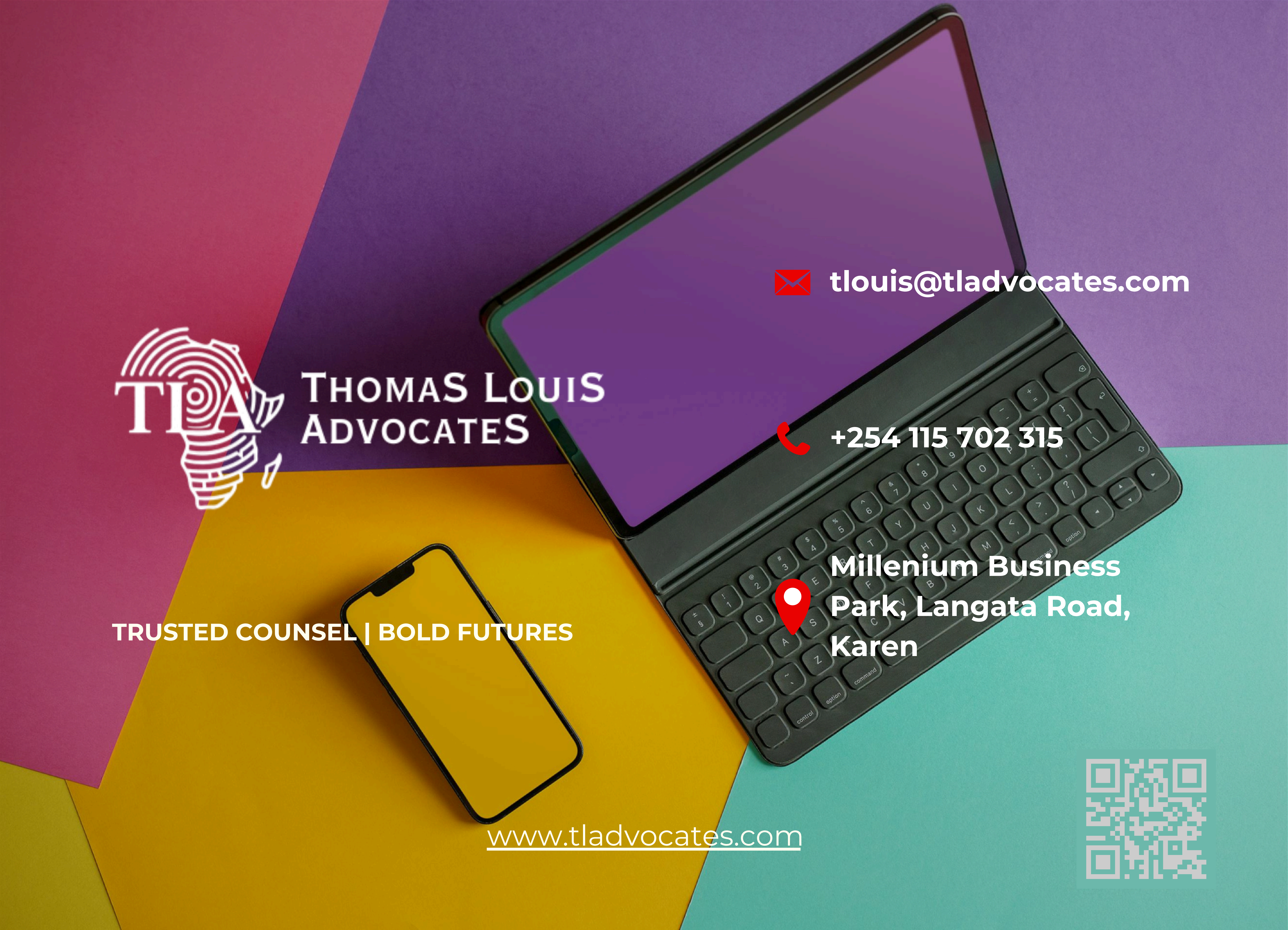

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